



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0579	Title:	Provide for a tax on e-cigarettes
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Primary Sponsor:	Wilson, Nancy	Status:	As Introduced
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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$26,726	\$32,584	\$38,601	\$44,795
State Special Revenue	\$26,726	\$32,584	\$38,601	\$44,795
Net Impact-General Fund Balance:	<u>\$26,726</u>	<u>\$32,584</u>	<u>\$38,601</u>	<u>\$44,795</u>

Description of fiscal impact: HB 579 creates a tax on tobacco vapor products, set at \$0.000173 (173 one-millionths of one dollar, or 173 ten-thousandths of one cent) per milligram (mg) of nicotine in the vapor product for each milliliter (ml) of consumable material contained in the vapor product. It is estimated that a tax on nicotine vapor products will generate \$26,726 in general fund revenue and \$26,726 in state special revenue for FY 2016. By FY 2019, a vapor products tax would generate \$44,795 for the state general fund and \$44,795 in state special revenue.

FISCAL ANALYSIS

Assumptions:

1. The State of Montana currently places a \$1.70 tax on the sale of cigarettes, as well as a \$0.85 per ounce tax on moist snuff. The state also places a tax on all other tobacco products that is equal to 50% of the wholesale price.
2. The State of Montana does not currently tax e-cigarette products, or the nicotine containing vapor products used by e-cigarettes.
3. HB 579 places a \$0.000173 mg/ml tax on all vapor products sold for consumption within Montana.

4. In 2012, tobacco sales within the United States equaled approximately \$100 billion annually. For the same year, electronic cigarette sales totaled an estimated \$500 million. In total, e-cigarette sales comprised approximately 0.5% of tobacco sales within the United States for CY 2012.
5. E-cigarette sales in the United States are projected to increase to \$1 billion in CY 2013. Assuming that total U.S. tobacco sales remain unchanged from their 2012 levels, e-cigarettes will comprise 1% of total U.S. tobacco sales in CY 2013.
6. Assuming that e-cigarette sales continue to increase by \$500 million each year, and that total annual U.S. tobacco sales remain unchanged at \$100 billion, e-cigarette sales will comprise 1.5% of tobacco sales in 2014, 2% in 2015, 2.5% in 2016, 3% in 2017, 3.5% in 2018 and 4% in 2019.
7. HJ 2 projects that total consumer spending on tobacco in Montana will increase to \$105.242 million in FY 2015, \$106.805 million in FY 2016 and \$108.512 million in FY 2017.
8. Assuming that total consumer spending on tobacco in Montana continues to grow at the projected HJ2 rate of 1.5417%, spending will increase to \$110.185 million in FY 2018 and \$111.884 million in FY 2019.
9. Based on projected levels of consumer spending on tobacco in Montana and the national share of e-cigarette spending to tobacco spending, e-cigarette sales in Montana will generate \$2,670,125 in consumer spending during FY 2016 (2.5% * \$106.805 million). For FY 2017, spending is projected to increase to \$3,255,360. Spending for FY 2018 and FY 2019 are projected to increase to \$3,856,472 and \$4,475,346, respectively.
10. A portion of e-cigarette spending is on the hardware required to turn the vapor product into a consumable form. HB 579 places a tax on vapor products sold for consumption in Montana, not the e-cigarette hardware. It is assumed that 25% of e-cigarette consumer spending in Montana will be on non-taxed hardware.
11. A 30 ml container of vapor liquid with 18 mg/ml of nicotine can currently be purchased for between \$2.50 and \$4.55. Assuming an average sales price of \$3.50 per container, approximately 17 million milliliters of vapor liquids will be sold in Montana during FY 2016. For FY 2017, 2018 and 2019, a total of approximately 20.9 million, 24.8 million and 28.8 million milliliters of vapor liquid will be sold each year respectively.

Fiscal Year	HJ 2 Consumer Spending on Tobacco	Estimated E-Cig Spending	Estimated Vapor Liquid Spending	Total ml of Vaping Liquid Sold, Assuming \$3 for 30 ml	Total Nicotine Sold, Assuming 18 mg/ml Vapor Liquid	Tax Revenue At \$0.000173 per 1 mg/ml
2015	\$105,242,000	\$2,104,840	\$1,578,630	13,531,114	243,560,057	\$42,136
2016	\$106,805,000	\$2,670,125	\$2,002,594	17,165,089	308,971,607	\$53,452
2017	\$108,512,000	\$3,255,360	\$2,441,520	20,927,314	376,691,657	\$65,168
2018	\$110,184,923	\$3,856,472	\$2,892,354	24,791,608	446,248,939	\$77,201
2019	\$111,883,638	\$4,475,346	\$3,356,509	28,770,078	517,861,409	\$89,590

12. Based on a tax rate of \$0.000173 per milligram of nicotine per milliliter of vaping fluid, and an average nicotine content of 18 mg/ml, HB 579 would raise an estimated \$53,452 in tax revenue during FY 2016. By FY 2019, tax revenue would increase to \$89,590.
13. Under current law, 50% of tax revenue generated by other tobacco products is deposited into the state's general fund, while the remaining 50% are deposited into a state special revenue fund for the Department of Public Health and Human Services.
14. HB 579 will also distribute 50% of the vapor products tax revenue to the general fund and 50% of the revenue into a state special revenue fund for the Department of Public Health and Human Services. As a result, the vapor products tax will increase general fund revenue and state special fund revenue by \$26,726 each in FY 2016. By FY 2019 the revenue for both funds will increase to \$44,795.

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$26,726	\$32,584	\$38,601	\$44,795
State Special Revenue (02)	\$26,726	\$32,584	\$38,601	\$44,795
TOTAL Revenues	<u>\$53,452</u>	<u>\$65,168</u>	<u>\$77,202</u>	<u>\$89,590</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$26,726	\$32,584	\$38,601	\$44,795
State Special Revenue (02)	\$26,726	\$32,584	\$38,601	\$44,795

Sponsor's Initials

Date

Budget Director's Initials

Date